



Annual Report 2008

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CHEMPLAST SANMAR LIMITED

# Chemplast Sanmar Limited



## Notice of Annual General Meeting

The Twenty Fourth Annual General Meeting of Chemplast Sanmar Limited will be held on Thursday, the 17<sup>th</sup> July 2008 at 10.00 A.M at Sathguru Gnanananda Hall, Narada Gana Sabha Trust Complex, 314, T T K Road, Chennai 600 018 to transact the following :

### ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report, the audited Balance Sheet as at 31<sup>st</sup> March 2008, the Profit and Loss Account for the year ended 31<sup>st</sup> March 2008 and the Auditors' Report thereon.
2. To appoint a Director in the place of Mr M K Kumar who retires at this meeting and is eligible for re-appointment.
3. To appoint a Director in the place of Mr M N Radhakrishnan who retires at this meeting and is eligible for re-appointment.
4. To appoint Auditors and fix their remuneration.

Price Waterhouse & Co., Chartered Accountants, Chennai are the retiring auditors and are eligible for re-appointment.

### Notes:

- a) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. THE PROXY FORM DULY COMPLETED MUST BE RETURNED SO AS TO REACH THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME OF THE COMMENCEMENT OF THE MEETING.
- b) Mr M K Kumar and M N Radhakrishnan, Directors are not related to any other director of the company. Mr M K Kumar does not hold any equity shares in the company. Mr M N Radhakrishnan holds 360 equity shares of the company.
- c) The Register of Members of the company will remain closed from Wednesday, the 9<sup>th</sup> July 2008 to Thursday, the 17<sup>th</sup> July 2008, both days inclusive.
- d) Integrated Enterprises (India) Limited is the company's Registrar and Share Transfer Agent. Shareholders are requested to send all requests for transfer of shares, dematerialisation of shares, change in address, etc., to:

Integrated Enterprises (India) Limited  
 Second Floor, Kences Towers  
 No.1, Ramakrishna Street, North Usman Road  
 T Nagar, Chennai 600 017  
 Phone No. 28140801 – 03; Fax No. 28142479  
 E-mail: sureshbabu@iepindia.com

## Chemplast Sanmar Limited

- e) Pursuant to Section 205A of the Companies Act, 1956, dividends which remain unpaid or unclaimed for a period of seven years from the date of transfer to the Unpaid Dividend Account are required to be transferred to the Investor Education and Protection Fund of the Central Government.

Section 205C of the Act declares that no claims shall lie against the Fund or the company in respect of individual amounts which were unclaimed and unpaid for seven years as aforesaid and transferred to the Fund.

Shareholders who have not encashed dividend warrant(s) pertaining to the company and/or Sanmar Properties and Investments Limited (which merged with this company), for the years 2001 onwards may contact the company at its Registered Office or Integrated Enterprises (India) Limited for issue of demand drafts in lieu thereof, before these amounts become due for transfer to the Fund.

Registered Office:  
9, Cathedral Road  
Chennai 600 086  
April 22, 2008

(By order of the Board)  
M. RAMAN  
Secretary



## Chemplast Sanmar Limited



### BOARD OF DIRECTORS

P.S. Jayaraman, Managing Director  
 S. Gopal, Deputy Managing Director  
 V. Ramesh, Deputy Managing Director  
 M.K. Kumar  
 S.V. Mony  
 B. Natraj (till April 1, 2008)  
 V.K. Parthasarathy  
 M.N. Radhakrishnan  
 M.S. Sekhar

### REGISTERED OFFICE

9, Cathedral Road  
 Chennai 600 086

### MANUFACTURING LOCATIONS

Mettur Dam, Tamil Nadu

PVC

Chlorochemicals:

Caustic Soda, Chlorine,  
 Chlorinated Solvents,  
 Refrigerant Gases and  
 Silicon Wafers

Krishnagiri & Panruti, Tamil Nadu

Industrial Alcohol

Vedaranyam, Tamil Nadu

Industrial Salt

Cuddalore, Tamil Nadu

PVC

Ponneri, Tamil Nadu

Trubore Piping Systems

Devarwadi Village, Maharashtra

Trubore Piping Systems

Karaikal, Pondicherry

Caustic Soda, Chlorine &  
 Ethylene Dichloride

### BANKERS

ICICI Bank Limited  
 Indian Overseas Bank  
 State Bank of India  
 Standard Chartered Bank

### AUDITORS

Price Waterhouse & Co.  
 Chartered Accountants  
 Chennai

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**Information Regarding Listed Securities as required under Clause 32 of the Listing Agreement**

NAME AND ADDRESS OF THE STOCK EXCHANGES	DETAILS OF SECURITIES LISTED
1) Madras Stock Exchange Limited Exchange Buildings, New No.30 (Old No.11), Second Line Beach, Chennai 600 001	Equity Shares
2) Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001	Equity Shares
3) National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051	Equity Shares

The listing fees to these Stock Exchanges have been paid.



## Directors' Report

The Directors have pleasure in presenting their report along with the accounts for the year ended 31<sup>st</sup> March 2008.

### Corporate Results

	2007-08 Rs. Crores	2006-07 Rs. Crores
Sales and Other income	811.93	707.83
Profit before interest, depreciation and taxes	96.85	87.60
Interest	43.65	20.96
Depreciation	45.20	34.45
Profit before tax	8.00	32.19
Provision for tax		
– Current tax	(1.62)	(6.78)
– Deferred tax	0.52	(1.87)
– Fringe benefit tax	(0.42)	(0.35)
Profit after tax	6.48	23.19
Reversal/ (Provision) for income tax relating to earlier years	0.70	(5.52)
Profit after earlier years tax	7.18	17.67
Profit brought forward	137.79	120.12
Appropriation	–	–
Profit carried to Balance Sheet	144.97	137.79

The company is passing through an important phase in its history where a number of capital intensive strategic projects involving capital outlay of around Rs.1100 crores have been initiated, some of which were completed during the year under reference and a couple more are due for commissioning in the current year. Fixed assets in the Balance Sheet are going up almost three fold in a period of 24 months. The full benefit of these investments will fructify in the coming years with significant addition to the top line.

The year under reference witnessed 15% growth in sales and other income over the previous year despite drop in Chloromethane volume and realisation. With escalating feedstock and energy prices, margins came under severe pressure. The profit before tax for the year was lower at Rs.8.00 crores compared to Rs.32.19 crores in the previous year.

With a view to conserving resources to meet the capital expenditure programmes, the Directors do not recommend payment of dividend on equity shares for the year 2007-08.

### MANAGEMENT DISCUSSIONS AND ANALYSIS

The year under reference was a typical example of the cyclical nature of the businesses your company is engaged in. The uptrend witnessed in Caustic Soda prices in the previous year started reversing during the year. On the contrary, PVC prices turned up smartly during the course of the year.

The Management's timely action to address the feedstock issues on a long-term basis and its decision to implement a project for an alternative fuel for generating power to meet the energy intensive operations, should keep it in good stead in meeting the future challenges.

## Chemplast Sanmar Limited

### PVC Business

The company's integrated facility at Mettur Dam has a capacity to produce 64,000 tons per annum (TPA) of PVC resin. The company continues to be the only domestic manufacturer with a capability to produce four different grades of PVC resin, offering it the flexibility to optimize product mix and maximise contribution. The feedstock, Ethylene Dichloride (EDC) required for the manufacture of PVC, is also produced captively.

#### *Suspension Resin:*

Suspension resin demand in India for the year 2007-08 has crossed 13.60 lac tons, clocking a growth of 12% over the previous year. Of this, around 10 lac tons was met out of domestic production with the balance by imports. While demand from the Pipes & Fittings sector continues to be the main driver, the boom in the real estate and construction sector are expected to sustain the double-digit growth in resin demand.

#### *Paste Resin:*

Paste resin consumption in India during the year under review registered a very moderate growth and the demand is estimated at 60,000 TPA. Leather cloth used in automobile, furnishing and footwear continue to drive the growth. Low priced import of finished leather cloth still continues to affect this segment. The Paste resin produced by your company continues to be the preferred choice.

#### *Battery Separator Resin (BSR):*

Demand for BSR in the country is stagnating at around 5,000 TPA. Prices came under pressure during the year on the back of cheap imports. Consumption of BSR is expected to marginally decline as newer technologies are getting established. Your company continues to be the only producer of BSR in the country.

#### *Copolymer Resin:*

The major application areas for Copolymer resin are in making inks and adhesives. Here again, your company is the only producer of this grade of resin in South Asia.

#### *PVC Pipes:*

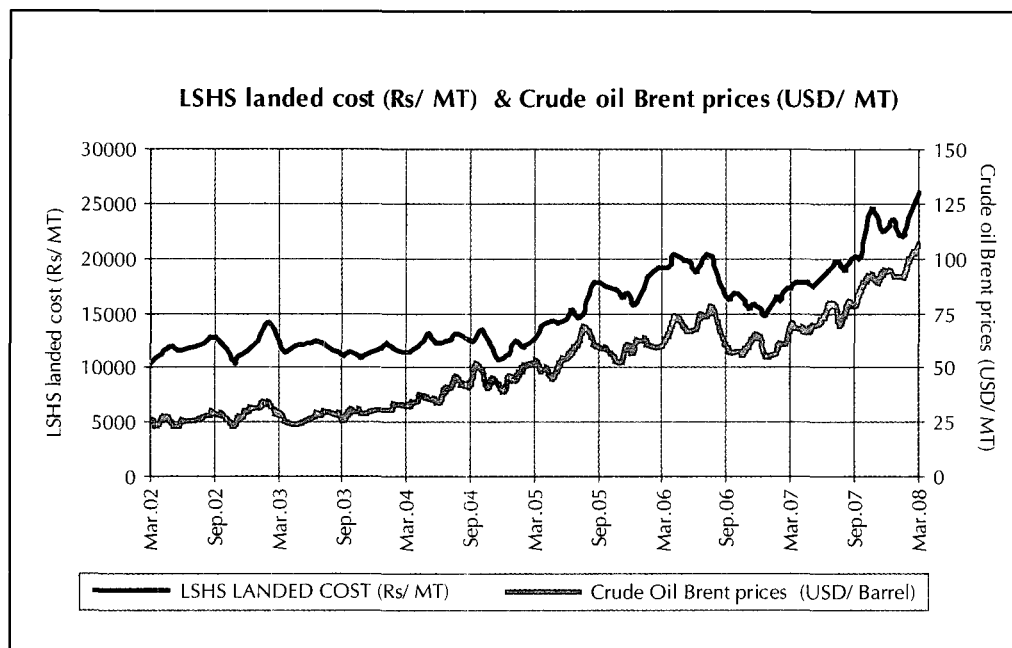
The year under review is the first full year of operations for Trubore Piping Systems division of the company. In order to optimise operations, the two manufacturing locations near Chennai have been integrated under one roof. During the year, the PVC pipes capacity in Chennai has been increased from 22,000 to 36,000 TPA. The company has also commenced manufacture of PVC fittings alongside PVC Pipes.

The company is progressing well with the setting up of a greenfield 20,000 TPA PVC pipes plant in Devarwadi Village, Chandgad Taluk, Kolhapur District, Maharashtra. This facility would be operational during first half of 2008-09. After completion of this project, Trubore Piping Systems would reach a significant size of around 56,000 TPA of pipes capacity. The focus is now on improving sales and marketing network in order to expand its market reach.

#### *Risks and concerns:*

- (a) The thin spread of just 3% between import duty on PVC (5%) and the intermediate EDC (2%) affects the contribution of the PVC business.
- (b) The unprecedented rise in power and fuel cost on account of spiralling international crude prices has a steep impact on the operations of the company. The operation for the year 2007-08 was negatively impacted by about Rs.11 crores on account of fuel price increase.





#### *Review of Operations:*

The PVC production during the year 2007-08 was 52,208 TPA. In the beginning of the year, PVC production was moderated on account of non-availability of Denatured Spirit (DNS) and unviable international prices for imported EDC. To overcome these issues, the company has set up an EDC plant based on Ethylene as feedstock at its Karaikal facility. After completion of the marine terminal facility (MTF) at this location, the company started importing ethylene from October 2007 onwards and commenced manufacture of EDC for captive consumption. This measure has ensured that the company does not face production dislocation at its PVC Plant for want of adequate raw material.

In line with international trends, domestic Suspension PVC prices recovered smartly during the year. However, the steep increase in most raw material prices and the spiralling fuel prices constricted margins during the year.

#### **Chlorochemicals Business**

The Chlorochemicals business operations at Mettur are again a highly integrated one, where the company produces Caustic Soda, Chloromethane, Chloroethane, Silicon Wafers and Refrigerant gases. The major raw material for Caustic soda production, power and salt, are available captively, while the chlorine produced is again captively consumed in the manufacture of chloromethane and chloroethane.

#### *Caustic Chlor:*

The year witnessed the addition of over 3.5 lac TPA of Caustic Soda of capacity in the country. This, along with the reduction in customs duty coupled with appreciating rupee, resulted in prices in domestic market softening, even though international prices improved marginally in the early part of the year. However, with domestic demand also growing strongly on the back of good performance in the aluminium and paper sector and with Asian producers having better export opportunities to USA, prices are expected to improve.

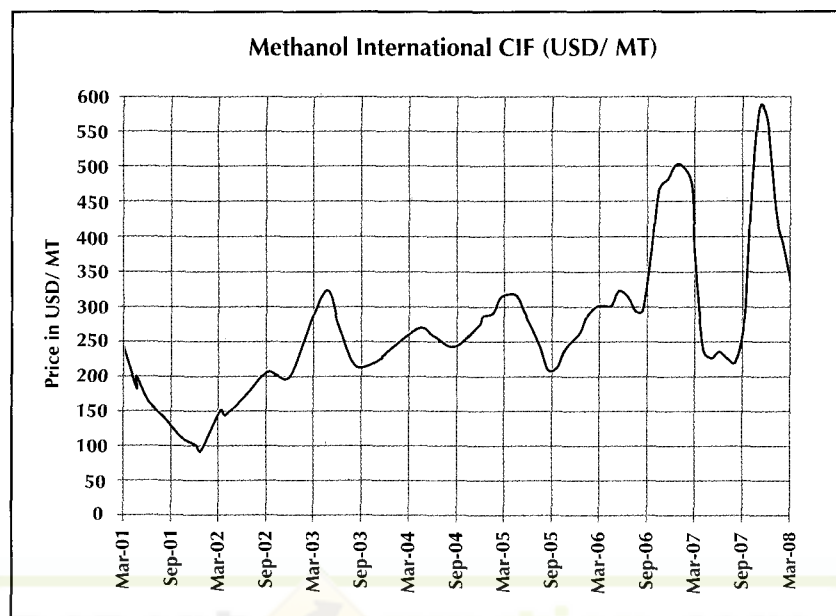
#### *Solvents:*

The growth momentum in the pharmaceutical sector in India helped in demand for Chloromethane Solvents growing by a nominal 6%. However, low priced imports of Methylene chloride towards the later half of the year, falling HCFC-22 international prices and lack of adequate demand from agrochemical sector for Carbon Tetrachloride (CTC), all resulted in steep fall in Chloromethane prices as the year progressed.



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To compound the problem, international prices of methanol, the raw material used in the manufacture of Chloromethane, after softening a bit in the first half of the year, flared up on account of global supply constraints to record high of USD 610 per MT CIF. As a consequence, margins on chloromethane came under severe pressure during the year under review.



With supply side constraints on methanol easing, towards end of the year, prices started receding to reasonable levels. It is expected that this trend will continue in the current year.

In line with the Montreal Protocol, the company is phasing out production of CTC for non-feedstock applications. Towards this, the company received a compensation of Rs.16.40 crores during the year.

### *Mettron:*

CFC production is in line with the phase out schedule agreed under the Montreal Protocol.

The company has concluded an agreement for sale of the Certified Emission Reduction (CERs) that it would earn from its Clean Development Mechanism Project over the next 5 years on a fixed price basis, thus insulating it from the volatility in international market for CERs.

### *Metkem:*

The scarcity in availability of raw material polysilicon continues to plague the international market. The company was however able to secure its requirement on a contract basis. Unfortunately, the operations were affected due to manpower related issues.

The company also ventured in to export of monocrystalline silicon ingots instead of further processing them into wafers to take advantage of short-term spike in ingot prices.

The company's project to manufacture polysilicon based on its own updated technology is on the verge of commissioning. If successful, this would open a new world of opportunity for the company in this globally critical product.

### *Risks and concerns:*

- (a) The energy intensive Chlor alkali operations were severely impacted by the spiralling fuel prices. The company has therefore tied up with a Gas based power generating entity for availing 22 MW of power at lower rates. In addition, a project to convert fuel from LSHS to coal for generating 48.5 MW of power at Mettur Dam is in advanced stage of implementation.



- (b) However, the increasing trend in coal price is a cause of concern as this directly affects cost of power and steam for the company.
- (c) Sale volume of both CFC and CTC will shrink as the deadline of 2009 and 2010 set for phase out of these under the Montreal Protocol nears.

#### *Review of operations:*

Operations of both Caustic chlor and Chloromethanes were marginally affected due to the shut down necessitated for hooking up the conversion of Caustic chlor plant to membrane cell technology. The Mettron Plant operated to its full capacity while Metkem Silicon operations were affected due to manpower related issues. The margins came under pressure mainly pursuant to steep increase in feedstock and energy prices.

## **PROJECTS**

#### *Karaikal:*

The marine terminal and the EDC manufacturing facilities were commissioned in October 2007. This initiative will ease the pressure on the company in sourcing DNS, the demand for which has gone up due to increased consumption in the potable sector and the gasohol programme of the Government of India. The company will continue to generate DNS at its own distillery to feed the oxy-chlorination facility at Mettur Dam for production of around 25,000 TPA of EDC.

#### *Mettur Dam:*

- a) The project to convert the process of manufacture of Caustic soda from mercury to membrane, in line with the company's commitment as an environmentally responsible corporate, was successfully commissioned in August 2007 with an investment of Rs.82 crores. This initiative was achieved much ahead of the mandated time period. In addition to being an environmentally friendly technology, this process will also result in lower consumption of power per unit of production.
- b) Another shining example of the company's commitment towards "Care for Environment", the Zero Liquid Discharge facility, was commissioned in March 2008 at an investment of Rs.27 crores. This is a pioneering environmental initiative towards achieving zero discharge of liquid effluent by a chemical process plant. This project will see the company's compliance on effluent discharge go way beyond regulatory requirements.

The complex technology, completely automated, sourced from an American MNC, involves a series of treatment processes for removal of suspended solids through primary settler, removal of oil and gas by an air stripper, chemical treatment and clarification to reduce hardness, filtering and softening, removal of residual alkalinity in a degasser, correction of pH, further filtering through cartridge filter, treatment with high efficiency reverse osmosis system and vaporising the residue to recover salt crystal. The process will also enable recovery of nearly 99% of water and thus help in conserving this precious natural resource.

It is indeed a proud achievement for your company to be the first in the country to set up such a unique process.

Both the above initiatives i.e., conversion from mercury cell to membrane cell process for production of Caustic Soda and the Zero Liquid Discharge, are in line with the Sanmar Group's philosophy of "Care for Environment".

- c) To mitigate the increasing prices of LSHS, the company has taken a project on hand to convert the LSHS based cogeneration facility to coal based cogeneration of the same capacity. The coal based cogeneration project is in advanced stage of completion and is expected to be commissioned during first half of 2008-09. On completion, the project would contribute significantly to reduce the power and steam cost compared to LSHS.